

IMPACT OF THE GLOBAL FINANCIAL CRISIS ON GROSS DOMESTIC PRODUCT GROWTH DETERMINANTS IN SELECTED EMERGING COUNTRIES FOR THE PERIOD 2008-2013

Malik Qasim Khasawneh

Taibah University, Economic and finance Division, Kingdom of Saudi Arabia

malik.khasawneh@yahoo.com

Abstract

This research aims to study the impact of the global financial crisis on the determinants of gross domestic product growth in the number of emerging economies during the period (2008-2013). this phenomena affects financial variables as well as real variables, regarding this, the author tries to determine the effect of the global financial crises on the determinants of GDP growth in some emerging economies. The study was descriptive and used analytical methods by relying on aggregate data model standard. The main source data of the study was the World Bank (WB), and the econometric technique used is a panel data model, in addition to other statistics such as the tests of unit root and cointegration. The study found that the current account, exports, foreign direct investment and reserves are influential factors on the growth rates of GDP and are statistically significance. However, the external short term debt affects the growth rates of GDP, but not statistically significant.

Keywords: Current Account, Exports, GDP, Global Financial Crises, Short Term External Debt, Panel Data.

INTRODUCTION

The global financial crisis which started in August of 2007, was the worst in the economic history since the Great Depression that happened in 1930. That crisis is a real financial crisis that has hurt the economies of both developed and emerging countries, without exception, that is what started of high risk and high losses in the United States as a result of the mortgage crisis moves to outside its borders. The impact of the crisis came on the real and financial economic variables. So growth rates in GDP dropped off, global financial markets collapsed, many of the commercial banks increased their risk margins, and liquidity dried up in some market segments. The occurrence of the crisis blow up a big question in front of economists, policy makers and specialists which is how all missed the possibility of such a large event occurs or that these economists failed to predict the crisis. Perhaps this failure compares the failure of politicians working in the field of political economy in predicting the collapse of the Soviet Union two decades ago. Thus, this repeated failure to anticipate the financial and economic crisis puts many discussions about the lessons that can be learned from this crisis, how to understand it, how to deal with theses crises in the future, and why it has spread outside the borders to other countries.

The impact of this crisis in the economies depend on several factors, such as the extent and the degree of openness of the economy to the global economy and the preventive measures and actions adopted by countries to reduce and or avoid the impact of this crisis on their economies. Aggravating the global financial crisis has made the economies of all countries volatile and turbulent financial environment. Which indicates the importance of creating a new era of financial regulations and mechanisms of central banks actions. Thus, it is very important that the policy makers and decision makers analyze the causes of the crisis precisely in order to make the right long-term measures that prevent or reduce the recurrence of such crises from occurring again.

The global financial crisis was truly launched in the US, but the contagion quickly moved the crises to the industrial countries and then to the emerging countries. The crisis has been launched with the housing bubble and the growth of the mortgage market explosion, especially those mortgages involving subprime mortgages, which grew in a rapid manner because of the growing numbers of borrowers' that whom are disable to commitment pay their financial obligations. the impact of this is reflected on the stability of financial institutions that offer these loans. So, many hedging funds and institutions in the U.S, Europe and Britain, which had invested heavily in securities collapsed

This study aims to examine the implications of the global crisis on growth in a number of emerging economies by using a data of 16 countries during a period (2008-2013). The choice of

the countries will depend on the availability and the existence of economic data on the variables that will be studied. and will be addressed later. The countries that have been selected in the study are Jordan, Egypt, Tunisia, Morocco, Lebanon, Yemen, Colombia, Pakistan, Mexico, India, Chile, Peru, Turkey, Indonesia, Argentina, Brazil and South Africa.

This paper is organized as follows. Section I: provides an introduction of the crises. Section II deals with the literature review and previous studies. Section III provides data and econometric methodology. Section IV the results.

LITERATURE REVIEW

Claessens and Kose (2013) argued that bubbles are often followed with failures and bankruptcies in the market resulting from the occurrence of adverse shocks, where assets prices declined and fall because of the changes that occur in its fundamental values or because of the changes in local regional and international economic and financial conditions. This leads to a crisis affecting the market and lead to the liquidation of enterprises and a further decline in prices with the impact on the real economy.

Wignall and Roulet (2013) determine the importance of placing restrictions on the capital movements during the period (2003-2011) in order to see if they have adverse effects on economic growth rate. The study has included a sample of 37 countries, mostly emerging economies countries. The study found that restrictions on capital movements before the financial crisis is useful due to the impact of such flows on the currency exchange rate and on the management of the exchange rate in those countries and on the accumulation of reserves. The study also found that the alleviation of restrictions on capital movements during the financial crisis, especially on bonds and foreign direct investment flows have a good effect on those countries. Countries that place restrictions and controls on their capital movements are less likely to face the economic and political risks, and this also helps to ease the cash flow constraints of the foreign investment as soon as a global recession occurs.

Ariccia et al (2013) pointed that a rapid increase in credit leads to financial crises. The money overstock, an increase in the risks associated with the rapid expansion of credit, and an increase occurring in asset prices often precedes the occurrence of financial crises. Financial crises that have occurred previously, was accompanied by a significant growth in credit and external financing volume followed by financial failures in the market credit and in the prices of financial assets. Perhaps one of the most important examples of this period of prosperity and financial deterioration is what happened in Australia during the period (1980-1990), and the financial crisis that occurred to East Asian countries in the late nineties. These financial crises often associated with shocks and structural changes in the market, including changes in

production and productivity, and economic policies, and capital flows. Previous studies found that GDP growth in previous periods was correlated positively with the probability of occurrence of the credit boom and during the three years preceding the occurrence of growth, GDP growth rate was 5.1% compared to 3.4% during the three years of the mutation.

Claessens et al (2013) suggesting that the collapse of asset markets and credit markets have negative and adverse effects on the real economy. The collapse of asset markets affects investment decisions, the financial institutions and the commercial banks' ability to lend and that's reflected on the real economy, this effect comes through two channels: first, when lending and borrowing are guaranteed by everyone in the market and when the size of the warranty is reduced for such reason, the ability of firms and other financial institutions to rely on those assets as collateral for new loans or to expand the size of the credit granted becomes weak and this in turn adversely affect the investment. Second, the large disturbances that occur in asset prices and credit, leads to financial turmoil that works to create a situation of uncertainty regarding lending and / or investing decisions of financial institutions, which increases the desire to hoard money and reduce lending. This causes a severe contraction in the real economic activity.

Ashamu and Abiola (2012) tried to know the impact of the global financial crisis on the commercial banking sector in Nigeria during the period (2008-2009). The study found that net foreign exchange inflows dropped due to lower oil revenues, as well as due to the drop in foreign loans to banks business, which led to a drop in the volume of liquidity in the market. Also the study found that a depression occurred in the capital market as the commercial banks lack the ability to provide credit to individuals for trading in the capital market. In addition allocation of loans granted to customers losses increased due to the inability to repay and the drop of growth in the economic activities. Also, a devaluation of the Nigerian currency exchange rate against other international currencies, rising domestic interest rates and drop in the profitability of commercial banks due to high interest rates.

Enajero (2011) includes Irrational Behavior and psychological behavior followed by traders and investors. In this case decisions of purchase of certain assets done by observations and views that related to asset prices and not on the performance of those assets. In this case imitating the behavior of others in the investment decisions, ignoring the truth that the purchase of such assets is relatively expensive leads to a collapse of the markets.

Mansoor (2011) tries to determine the impact of the financial crisis in consumer behavior in Bahrain, a sample of 50 people from different ages have been selected and their incomes ranged from 1000 to 3000 Bahraini dinar. A questionnaire was put which included several questions to find out the extent of the impact of the financial crisis on consumers behavior. The

study found that the financial crisis causes a statistically significant adverse effect on consumer behavior. The crisis also led consumers to transform their consumption from luxury goods to necessary goods. In addition, and consumers began to change their consumption habits and that's by moving away from buying large quantities of goods and rely only on the few volumes that cover their needs. The study also found that there was no effect on savings. The study also found that the government has an essential role to overcome some of the problems associated with the global financial crisis, its intervention is necessary to ensure that consumers are not adversely affected by this crisis by supporting basic commodities such as food commodities, preventing the increase in prices and controls them especially for the poor ones.

Kouame and Reyes (2011) have examined the impact of the global financial crisis in the Caribbean area during the period (2009-2010), where most of those countries originally before the crisis began to suffer from the weakness in economic growth rates they had. The crisis came to increase the weakness and the decline in the economic growth rate, as exposure their economies are a heavily reliance on the U.S and Britain economies as sources of foreign direct investment, tourism and remittances. A GDP growth rate is accounted for 3.6% in 2009 and 1.4% in 2010. As global demand for exports and services provided by that region to the world countries has dropped a high unemployment rates and low employment levels appeared significantly. Therefore, poverty level increased in those countries.

Bajpai (2011) evaluate the impact of the global financial crisis on India. The study found that the impact of the crisis was not during its early stages of 2007, but it was during subsequent phases. The impact was felt in 2008 as the growth rate in exports decreased from 35.1% in 2007 to 17.6% in 2008. The rate of growth in foreign direct investment decreased from 185.1% in 2007 to a rate of 65.6 % in 2008, as well as the growth rate in GDP has fallen from 8.8% in 2007 to 6.7% in 2008. in addition, the deficit in the current account rose from 1.5% as percent of GDP in 2007 to 2.6% in 2008.

Mishkin (2011) define the financial crisis as a crash in the financial markets as a result of adverse selection and moral hazard, which makes financial markets are becoming unable to direct and managed funds efficiently and leads to a sharp contraction in real economic activity. While, International Labor Organization (ILO, 2011) also, defined financial crises as another great economic recession and a complicated economic clear-cut problem hit countries during the present century, and led to a continuous decline in GDP.

Trichet (2010) pointed that financial crises have some common denominators when they are occurred and they are linked with boom, prosperity and contentment, that happened in financial markets, and supported also by the sharp increase and rapid grow in the volume of credit, financial innovation and technological progress. So, each financial crisis is a unique

situation, and has its own characteristics, and this make them different from those previous crises. In order to avoid the next crisis it is necessary to understand the causes and mechanisms behind the current crisis that affecting certain sectors more than others in the economy and the financial system.

Claessens et al (2010) argues that the high increase in the international financial flows amplify credit booms. In contrast, most of the national capital markets are affected by international conditions, and this vulnerability is seen clearly day by day through the global financial crisis that swept the world. The bubble obtained in asset markets has easily spread across the border. Thus, the fluctuations that occur in the capital flows is working to amplify the movements in the domestic financial markets and lead to a significant increase in the funds available for lending by banks that operate on the easing of restrictions on credit to companies and individuals. The rapid expansion in credit and the sharp growth in property prices and the prices of other assets was associated with occurrence of large capital inflows in many countries before the recent global financial crisis.

Senbet and Gande (2009) conducted a study to determine the impact of the global financial crisis on the stock markets for a sample of 63 countries during the period (2005-2009). The study was divided into two periods, the first was during the period (2005-2006), the period that preceded the financial crisis, and the second during the period (2007-2009), a period when the financial crisis occurred and continued. the study found that the change in the credit rating, the rate of stock turnover or what is known as the market value of shares, the private credit rate to the GDP and the level of development of financial markets, which is measured by the capital of the financial market capitalization to GDP have an important role in the stock market's performance during both the pre-crisis and crisis periods and beyond. If these factors changed to the worse, they led investors to stay away from the market and not to invest in it, and this is what happened during and after the financial crisis.

Reinhart & Rogoff (2009), argued that Global financial crisis, is painful reminder of the multifaceted nature of the crises that occurred in the economy from time to time which have multiple aspects, including: currency, exchange rate crisis, banking Crisis and financial markets crisis. The most important feature of this crisis is that it came at all countries without any exception and because of that it called "the crises of equal opportunities and risks". the reasons are local and external, and tracked from the public sector or the private sector and in different sizes and shapes, and spreading rapidly across borders. Theses crises often require immediate and comprehensive responses by policy makers to make main changes in the financial sector, fiscal and monetary policies. It also requires global coordination in the policies used. The widespread impact, created by the global financial crisis. And it's perceptible still effects until

now in all the world. So, underscores the importance of understanding the crisis and its implications can be as large and influential on the economic and financial policies behavior. In U.S only for example, real estate prices has declined by 35%, stock prices has declined by 55% , output declined by 9% and unemployment rose to rate of 7%, As well as the debt of the central government to rate of 86%.

Branch and Evans (2008), used the learning theory to interpret the movements of assets especially stocks prices movements. Investors use modern data and information rather than depending on previous statements of stock prices movements. Positive shocks that occur in the stock market leads to an increase in the expected returns, and this leads to higher stock prices than the current level of current prices which makes investors wait until the bubble explode without distortions, un certainty or speculation.

Lansing (2008) and Hirata et al (2012) took under consideration the impact of credit on economic policies, such as monetary policies associated with credit and its risks. The interest rates affect asset prices and the net wealth of the borrowers, which is reflected on the lending conditions. That is, when interest rates fall, the borrowers are becoming more willing to get loans , when interest rates rise their willing is less. With the availability of external funds which are available for lending and with lower interest rates, monetary policy efficiency is low and in some cases it is non-existent. This is what happened in the United States during the period (2001-2004) and it is the primary factor in the increase that occurred in the real estate prices rise as the main factor behind the rapid increase in housing prices and in the individuals willing to borrow.

According to Lin (2008) the global financial crisis that has spread all over the world has caused a slowdown in the economies of most developed countries and also affected the financial markets and the growth prospects of developing countries which made the governments all around the world to try to contain the crisis. for U.S the total lost from the collapse of real estate prices until 2008 is estimated at 2.4 trillion dollar, while the total wealth lost by the US economy is also estimated to be 162 trillion dollar. In addition to the losses witnessed by clients in the housing and real estate sector of the commercial banks, which in turn causes an impact on the financial sector in the entire United States, and then moved its impact on other developed and developing countries. Fall in the freight rates between countries and financial markets slowed growth and decreased demand from China's export orders. As for the rate of growth in the global economy as a whole, the growth rate of the global economy has reached a rate of 3.7% in 2008 and 2.2% in 2009, compared with 5% in 2007.

Allen and Gale (2007) take into account the distortions that occur at the micro level in addition to the Macro factors. Partial distortions and overall factors can lead to bubbles in assets

markets that occur because of risk shifting and risk diversification due to default risk and the inability to repay the loans borrowed for the purpose of investment especially when the rate of return is not high enough to cover the interest rate of the loan.

Some researchers as Shiller (2006) put an amendment indicator to real estate prices in the US, the base year of the index was 1890. He found that real estate prices have begun to rise in 1997 and the rise was remarkable and high to a very large extent. This led to the conclusion that this rally will not last forever, and it must be followed by a sharp decline.

Brunnermeier (2001) added that the behavior of investors and the frictions that occur in the financial markets, particularly those associated with variations in information and opinions between investors, which are related to the evaluation of assets, the availability of information and the moral of the status influence of the price of assets and develop the appearance of bubbles dramatically, even if those bubbles were temporarily.

Garber (2000) pointed that financial crises preceded by prosperity and Booms in asset prices and credit, that which turns eventually to failure and bankruptcy in economy. Boom explains why bubbles occur in asset prices and credit, and hence raises an important question why policy makers do not predict of the risks that precedes the occurrence of such crises and try to slow down the expansion of credits and reduce the increasing of asset prices before spreading to other countries. Bubble can be defined as a sharp rise in the massive asset price movements in ascending and unexplainable manner which leads to financial un stability in and developed and emerging economies.

Blanchard and Watson (1982) argued that bubbles can occur in asset prices due to the existence of rational behavior or rational expectations by individuals which leads to mispricing of assets and thereby cause a bubble in asset prices. Business companies adjusted their future expectations regarding the return that they expect to earn in the in the future. So, the future price of asset prices not necessary equal the current price, and the fluctuations in observed Prices are very large, but not exaggerated or irrational. This point of view succeeded in explaining the internal bubbles that happened in asset prices during the nineties.

Kindleberger (1978) and Minsky (1972) stated that financial crises involved a sharp declines in asset prices, failure of large financial and non-financial companies, a decline in inflation and disturbances in the foreign exchange markets. These disturbances necessarily mean the presence of potential serious consequences for the overall economy, which requires the government for rapid intervention.

Keynes (1930); Minsky (1975) and Kindleberger (1978) showed that Financial and economic crises have common elements that come in many forms, and usually associated with a single phenomenon or several phenomena's including the occurrence of significant changes

in the size of credit extended, changes in various asset prices, turbulence in financial markets, the provision of external funding, the government support to economic sectors, in addition to the problems related to companies, households and financial intermediaries in their balance sheet. These elements indicate that the crisis is a multi-dimensional events and it is difficult to predict or distinguish it by using one element only. Volatility and shocks that occur in the macroeconomic indicators are mostly responsible for these crises, but the real causes of these crises are almost completely unknown. The crisis sometimes appear because of irrational factors that's include for example bank failures, the indirect effects of contagion from one area to another, and assets liquidation. This means that financial crises are often followed by the so-called animal instincts or the so-called herd behavior or animal sprit.

METHODOLOGY

The study will use the following variables to measure the impact of the global financial crisis, the choosing variables will depend on the study done by Blanchard et al (2010), and the study will use the panel data Model to analysis the results. The variables will be:

1. The growth rate of Gross Domestic Product as an independent variable.
2. Trade Exposure Index: It represents the share of exports to GDP, and can be calculated by dividing the value of exports to GDP. The more economies open to the outside world, the more affected by the biggest crises. More openness means a higher degree of integration and greater reliance on commodities, global services and global capital markets, and contribute to the potential gains in growth and well-being. However, this is also risky because it leads to an increase in external exposure, which is measured through economic growth and openness to external shocks. As Calderon et al (2005) argued that those risks increased in countries that rely more on the outside world in the demand for goods and services due to the weakness of specialization in production, lack of diversified sources of income, unstable economic policies, lack of integration of financial markets, and/ or the poor performance of financial institutions.
3. the ratio of a short external debt to GDP: As Sichula (2011) pointed out an increase in the short-term external debt increased the inability of economies to meet there debt service obligations, especially if borrowing is from time to time and the un ability to pay obligations to debts, which leads to the accumulation of debt and thus heavy debt service burden. So, large portion of GDP will be paid as benefits to foreign lenders and this will affect investment negatively on the investment, and considered as an implicit debt service tax.
4. Ratio of current account deficit to GDP, as Brissimis et al (2010) suggest large and continuous deficit in the current account especially when it becomes a sustainable and growing deficit, which puts the country at risk. Especially for small open economies that heavily

depending on external funding. The reliance on external financing and borrowing leads to a decrease in the proportion of private savings by individuals and the business sector and this contributes to increase the current account deficit which makes the economy more vulnerable to external shocks.

5. Ratio of reserves to short term debt: when international reserves are greater than the short-term debt, then the country is less likely to suffer from financial and economic crisis and the GDP growth rate is more likely to be higher and more stable. Empirical studies that have been applied to developing and emerging markets conclude that international reserves to short-term debt is the most useful indicator to explain the real output growth. The increase in reserves to short-term debt increases economic growth. Between 0.4% to 0.5%. the accumulated reserves in emerging and developing economies came as lessons learned from previous crises that have occurred which have suffered from being raised previously (Royal economic society, 2014).

6. Foreign direct investment FDI: Practical studies on this variable showed mixed results, some of these studies have found a positive relationship between FDI and GDP growth, while others found negative relationship (Alfaro, 2003).

The data were obtained for the study regarding the study sample of the countries by the World Bank (WB), and on an annual basis. The standard model used to estimate the relationship between the dependent and independent variables it is a (Panel Data), where standard mathematical relationship can be represented by the following equation:

$$Gdp\ Growth = f(CA, RES, FDI, STED, EXP) \quad \dots(1)$$

where - CA: Represents the ratio of the current account to GDP.

RES: Represents the reserves as a percentage of short-term external debt.

FDI: Represents foreign direct investment as a percentage of GDP.

STED: Represents the foreign short-term debt as a percentage of GDP.

EXP: Represents the exports as a percentage of GDP.

Equation (1) can be rewritten as follows:

$$Gdp\ Growth = \alpha + \beta_1 CA + \beta_2 RES + \beta_3 FDI + \beta_4 STED + \beta_5 EXP + \varepsilon_{it}$$

ANALYSIS

Before starting to analyze the data, unit root test should be made and done by Levin Lin Test on the level and the first difference. It was found out that the sample is stationary on the level and the first difference as shown in table (1) and table (2). Also, the study used Pedroni Cointegration Test to measure the cointegration relationship between the variables. The study has found out that 9 statistical results out of 11 do not reject the null hypothesis of the existence

of a complementary relationship between the variables of the study, according to what is shown in the Table (3). After a benchmark test using aggregate data model, results were obtained and shown in the following output table (4).

Table 1: unit root test result at the level

Null Hypothesis: Unit root (common unit root process)						
Series: CA, EXPORTS, GDP, FDI, RESERVE, STED						
Sample: 1 102						
Exogenous variables: Individual effects						
Automatic selection of maximum lags			Automatic lag length selection based on SIC: 0			
Newey-West automatic bandwidth selection and Bartlett kernel						
Total (balanced) observations: 606			Cross-sections included: 6			
Method	Statistic			Prob.**		
Levin, Lin & Chu t*	-6.76916			0		
	Coefficient	t-Stat	SE Reg	mu*	sig*	Obs
Pooled	-0.28144	-10.879	1.031	-0.518	0.776	606

Table 2: unit root test result at the first difference

Null Hypothesis: Unit root (common unit root process)						
Series: CA, EXPORTS, GDP, FDI, RESERVE, STED						
Sample: 1 102	Total number of observations: 587			Cross-sections included: 6		
Exogenous variables: Individual effects			Automatic lag length selection based on SIC: 0 to 5			
Newey-West automatic bandwidth selection and Bartlett kernel						
Method	Statistic		Prob.**			
Levin, Lin & Chu t*	-18.9488		0			
	Coefficient	t-Stat	SE Reg	mu*	sig*	Obs
Pooled	-1.23623	-21.87	1.039	0.519	0.778	587

Table 3: Pedroni Cointegration Test Results

	Weighted			
	Statistic	Prob	Statistic	Prob.
Panel v-Statistic	-1.217386	0.8883	-1.67016	0.9526
Panel rho-Statistic	0.511022	0.6953	0.655381	0.7439
Panel PP-Statistic	-3.349035	0.0004	-2.71077	0.0034
Panel ADF-Statistic	0.758223	0.7758	0.904825	0.8172
Alternative hypothesis: individual AR coefs. (between-dimension)				
	Statistic		Prob.	
Group rho-Statistic	1.558256		0.9404	
Group PP-Statistic	-3.171448		0.0008	
Group ADF-Statistic	1.342528		0.9103	

Table 4: Panel Data Model Test Results

Dependent Variable: GDP				
Method: Panel EGLS (Cross-section random effects)				
Swamy and Arora estimator of component variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
CA	-0.16926	0.103065	-1.64222	0.1038
EXPORTS	-0.00268	0.033631	-0.07965	0.9367
FDI	0.311679	0.152044	2.049933	0.0431
RESERVE	-0.14168	0.049558	-2.85889	0.0052
STED	-5.69913	6.414688	-0.88845	0.3765
C	3.717072	0.976176	3.807789	0.0002
Effects Specification				
		S.D.	Rho	
Cross-section random		1.105162	0.1365	
Idiosyncratic random		2.780052	0.8635	
Weighted Statistics				
R-squared	0.161724	Mean dependent var	2.788116	
Adjusted R-squared	0.118064	S.D. dependent var	3.037064	
S.E. of regression	2.85215	Sum squared resid	780.9371	
F-statistic	3.704162	Durbin-Watson stat	2.098987	
Prob(F-statistic)	0.004146			

EMPIRICAL RESULTS

1. There is an inverse relationship between GDP growth and the current account. 1% deficit in the current account leads to an increase in GDP growth rate by 0.17% and vice versa, and this variable is a statistical significance. The reason for this is that the current account is the difference between national savings and national investment. Thus, the deficit in the current account occurs as a result of the decrease in saving or an increase investment, and the occurrence of the deficit means borrowing from outside to finance and cover the deficit. Also, an increase in investment means an increase in productivity and exports earnings. This means high rates of growth in gross domestic product in addition to a permanent deficit in the current account rates, especially when investing in tradable goods. (Roubini and Wachtel, 1998)
2. There is an inverse relationship between growth in exports and growth in GDP and the relation is statistically significance.
3. There is a positive relationship between FDI and GDP growth, and this relation is also statistically significance.
4. There is an inverse relationship between foreign reserves and the growth of GDP, and this variable is also statistically significance. The reason for this is that the international reserves in the study sample countries are complementary reserves in the event of a financial crisis which

in turn leads to adverse changes in the movements in foreign and domestic capital flows. In the recent global financial crisis, which occurred in 2008, foreign reserves declined in many countries and that capital flows were the main factor behind the growth, which led to the aggravation of the crisis that has affected them. Thus, the study sample countries use reserves for the purpose of hedging the event of adverse movements in capital flows.

5. There is an inverse relationship between the short-term external debt and GDP growth, but this variable is not statically significant

CONCLUSION

The Global Financial Crisis affected all world economies. This study studies the impact of the global financial crisis on GDP growth determinants in a number of emerging economies during the period (2008-2013). The variables that the study used are, GDP growth, current account (CA), international reserves excluding gold (RES), foreign direct investment (FDI), short term external debt (STED), and exports (EXP). The study uses a number of statistical tests to test the variables under consideration such as unit root test constructed by Levin and Lin in the level and the first difference. Also, the study uses Pedroni cointegration test to measure the cointegration relationship between the variables, in addition to the panel data econometric model to study the effect of global financial crisis on GDP growth determinants.

The study found that the current account, exports, foreign direct investment and reserves are influential factors on the growth rates of GDP and are statistically significance. However, the external short term debt affects the growth rates of GDP, but not statistically significant. The study was descriptive and analytical methods used and that by relying on aggregate data model standard. The study concluded that the periods of crises affects the variables the determine the GDP growth in the countries under this study.

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